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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000510

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E.O. 12958: DECL: 04/22/2018
TAGS: [PGOV](#) [ECON](#) [EAID](#) [EPET](#) [TX](#)
SUBJECT: TURKMENISTAN: U/S JEFFERY'S DINNER WITH
DIPLOMATS: HARD TRUTHS WITH A GLIMMER OF HOPE

Classified By: CDA RICHARD E. HOAGLAND: 1.4 (B), (D)

¶1. (C) SUMMARY: The success of economic reform in Turkmenistan is by no means assured, select members of Ashgabat's diplomatic corps told Under Secretary for Economic, Energy and Agricultural Affairs Reuben Jeffery III during a free-wheeling dinner on April 21. Although the president appears committed to promoting economic reform, he faces considerable obstacles: limited bureaucratic capacity, official corruption, and a "we can do this better ourselves" mindset. Officials' lack of understanding of how to accomplish the goals that the president is laying out is leading to bad strategies and growing dissatisfaction among citizens caught between the president's vision and their own declining purchasing power. Diplomats also agreed that, in trying to diversify Turkmenistan's natural gas export options, an ill-advised president is making commitments he cannot meet. Only when the president recognizes the limits of Turkmenistan's "go-it-alone" strategy -- likely in 2010, when it will become clear that Turkmenistan cannot deliver on its natural gas commitments to Russia and China -- might leaders be open to the cooperation and large-scale investment that Western companies are proposing. Meanwhile, one particularly well-connected diplomat urged, the best hope is for Western countries and firms to remain closely engaged.
END SUMMARY.

¶2. (C) During an April 21 dinner hosted by the Charge, Under Secretary Reuben Jeffery III discussed recent energy and

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economic developments with select members of Ashgabat's

diplomatic corps. Diplomatic corps participants in the two-hour event included Ambassador of Georgia Alexi Petriashvili, Ambassador of Poland Maciej Lang, EU/TACIS Advisor Michael Wilson, EBRD Resident Office Head Tony Myron, and Turkish Deputy Chief of Mission Tolga Orkun (please protect all).

REFORM WITH A TURKMEN TWIST

13. (C) Participants agreed that lack of human capacity is one of Turkmenistan's largest problems. The government wants to narrow its scientific and technical gap, but it wants to do so in a way that supports a "Turkmen" way of doing things. As a result, it is sometimes offering a cold shoulder to cooperation with Western donors. "After all, what the Western donor community has to offer -- \$35 million in assistance funds -- is nothing compared to the billions of dollars that Turkmenistan is now getting for its hydrocarbons," according to Myron.

CLOSING THE GAP WITH IMPORTED EQUIPMENT

14. (C) Instead, Turkmenistan is seeking to purchase science and technology from abroad, and is sending students to Malaysia, Russia, and other locations where they are not as likely to pick up Western values. But Myron and Wilson commented that this is not working: Turkmenistan is getting expensive infrastructure and equipment, but it is not getting people who are capable of understanding how the equipment works -- or the complexity of the changes that they are trying to make.

CORRUPT OFFICIALS HAVE MUCH TO LOSE FROM REFORM

15. (C) Participants agreed that corruption is also hindering

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reform. Officials from the president down are used to working in a system where they share the cut -- typically 10-15% -- of lucrative construction contracts. Officials also take advantage of other opportunities, such as the periodic bouts of panic trading of dollars for manat, to make massive amounts of money. For example, in the week prior to the April 18 decision to change the manat-for-dollar exchange rate, officials were buying dollars in large quantities for 16,000 manat and then exchanging them in back rooms of banks at the "official" commercial rate of 20,000 manat. While Wilson and Myron seemed not to believe that the panic-trading was engineered to soak up dollars, they agreed that, with opportunities such as these for generating wealth, Turkmenistan's officials have much to lose from promoting the principles of transparency and accountability that Western market-economy standards promote.

16. (C) Officials' lack of understanding of how to accomplish the goals that the president is laying out is leading to bad strategies and to skepticism over the course the president says he is pursuing. Wilson commented that there currently is only one Western expert positioned in the government -- a BearingPoint advisor that EU-TACIS has positioned at the Ministry of Finance just within the past few weeks. Myron reported that this uncertainty has caused the EBRD to postpone a decision to upgrade Turkmenistan's status until next year.

GROWING POPULAR DISSATISFACTION WITH ECONOMIC REFORMS

17. (C) All agreed that Turkmenistan's citizens are the real losers of the government's poor implementation of its reform strategies. Myron reported that, while efforts to strengthen the manat against the dollar should be resulting in lower inflation, that's not happening. Prices have risen approximately 34% since the beginning of the year. At the same time, citizens who have been saving in dollars have seen their savings shrinking with the manat's appreciation. All participants agreed that popular dissatisfaction is

increasing. All concurred with Georgian Ambassador Petriashvili's suggestion that there has been a recent increase in plainclothes security police around town, including at banks, and attributed the increased security presence to concerns over the increased grumbling.

TURKMENISTAN CAN'T MEET ITS GAS COMMITMENTS

¶8. (C) All participants concurred that President Berdimuhamedov is seeking to diversify export pipeline options, but in doing so, he may be making commitments that Turkmenistan can't follow through on. Even though the president reportedly promised during the April 9-10 EU Troika meeting to sell the EU 10 billion cubic meters (bcm) per year of natural gas, nobody is certain where that 10 bcm will come from. Turkmenistan's production is continuing to decline. Myron noted that gas rigs that Turkmenistan is working itself are also showing extremely low gas recovery rates, when compared to the much higher figures (around 70%) that western hydrocarbon majors are claiming.

OFFICIALS KEEP THE PRESIDENT IN THE DARK

¶9. (C) The problem, all agreed, is that Turkmenistan's top officials see only the massive and growing income from its hydrocarbon exports, and are not looking at the larger

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picture. The president, seeing the influx of money that Turkmenistan is receiving from rapidly increasing natural gas prices, believes that everything is on track. Pol/Econ counselor stressed no Turkmen officials are telling the president the real situation and they have nothing to gain by telling the president that they are unable to deliver. It is only high-level foreign visitors meeting with the president who can provide a reality check. All agreed with the Charge's comment that Berdimuhamedov does seem to be listening to what foreign leaders and businessmen are saying.

2010: THE YEAR OF TRUTH

¶10. (C) Wilson suggested Turkmenistan will continue along its "we-can-do-this-ourselves" course until 2010, when it will become clear that Turkmenistan cannot deliver on its natural-gas commitments to both Russia and China at the same time. Only then might leaders be open to the cooperation and massive investment that Western companies are proposing. Western countries and firms must remain closely engaged with Turkmenistan in the interim to build trust and understanding.

Wilson also suggested that, of the Western major oil companies, TNK-BP is following the wisest strategy: it is seeking to build trust with the government by reconditioning old fields. This, he suggested, will position TNK-BP to take advantage of the new openness, once leaders realize that Turkmenistan is not capable of producing by itself the volumes that it needs.

¶11. (C) COMMENT: The Charge chose his dinner guests because of their informed insights into how Turkmenistan works and their general willingness to offer up-front analyses on latest developments, rather than their tendency to agree. Even though they did not agree on all details, their unvarnished insights offered a snapshot of current thinking about the state of play of reform in Turkmenistan. END COMMENT.

¶12. (U) Uncer Secretary Jeffery has cleared this cable.
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